NAM[redacted] (b)(6)

DR. COLLINS

TEST #3C (ON-LINE SECTION ONLY)
TIME LIMIT: 75 MINUTES
TEST TIME WINDOW: WEDNESDAY, JUNE 28, 2017 (8:00AM) TO FRIDAY JUNE 30, 2017 (5:00PM)

(OPEN BOOK, ONE PAGE OF NOTES – 8 ½ X 11)
Attach Notes Page to back of Test when submitted for grade
ABSOLUTELY NO CELL PHONES OR BACKPACKS IN TESTING AREA!!!

Multiple Choice Questions: For each Multiple Choice question below select the most nearest answer from choices A – D. Properly write your selected answer in the blank beside the corresponding question. Each M/C question is worth 10 points each.

(10) A 1. **A $10,000 face value bond pays dividends of $1,200 (12%/yr bond rate) at the end of each year. If the bond matures at 20 years, what is the approximate bond value at an interest rate of 11% per year, compounded annually?**

A. $ 8,245
B. $ 9,300
C. $10,800
D. $12,820

$V = 10{,}000$
$r = 12\%$
$A = 1200$
$n = 20$

$P = 1200(P|A, 11\%, 20) + F(P|F, 11\%, 20)$
$(7.96333) \qquad (0.12403)$

(10) D 2. **Douglas wishes to purchase a $1,000 bond from Jose who needs the money. There are 7 years remaining until the bond matures, and interest payments are made quarterly. Douglas decides to offer Jose $850 for the bond because he wants to earn exactly 8% per year compounded quarterly on the investment. What is the "effective" annual bond rate of interest?**

A. 9.10%
B. 5.28%
C. 6.60%
D. 1.30%

$P = Vr(P|A, i\%, n) + F(P|F, i\%, n)$

$i_{eff} = \left(1 + \frac{r}{m}\right)^m - 1$

$V = 1{,}000$
$P = 850$
$n = 28$
$i = 2\%$

$850 = 1000(r)(P|A, 2\%, 28) + 1000(P|F, 2\%, 28)$
$(21.28127) \qquad (0.57437)$

$r = 0.012952$

$i_{eff} = \left(1 + \frac{.012952}{4}\right)^4 - 1 = 0.013015$